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Exquisite Form Brassiere (Canada) Limited

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*Exquisite Form*

ANNUAL REPORT 1975



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# Exquisite Form

## Directors

JOHN H. BROWN

Toronto

JOSEPH H. GAYNE

Toronto

J. HOWARD HAWKE

Toronto

MILES REBEN

Toronto

STEPHEN R. REINER

New York

WESLEY P. REINER

New York

CARL M. SOLOMON

Toronto

HARRY L. SOLOMON

Toronto

## Officers

HARRY L. SOLOMON

President

MILES REBEN

Executive Vice-President

JOSEPH H. GAYNE

Vice-President & Secretary-Treasurer

## Transfer Agent and Registrar

THE CANADA TRUST COMPANY

Montreal, Toronto

## Auditors

WM. EISENBERG & CO.

Chartered Accountants, Toronto

## Listed

TORONTO STOCK EXCHANGE

Executive Office

215 Spadina Avenue,

Toronto, Ontario M5T 2E1

## HIGHLIGHTS OF THE YEAR

	1975	1974 (Restated)
Net sales	\$15,430,000	\$18,408,000
Net earnings before extraordinary items	98,000	266,000
Net earnings (loss) after extraordinary items	(206,000)	577,000
Net earnings per common share		
Before extraordinary items	13¢	39¢
After extraordinary items	(36¢)	89¢
Working capital	2,986,000	2,517,000
Fixed asset additions (net)	76,000	142,000
Shareholders' equity	4,706,000	4,926,000

# REPORT TO THE SHAREHOLDERS

A combination of inflationary pressures and world economic conditions have resulted in a nominal profit before extraordinary items and a loss after extraordinary items for your Company's fiscal year ended June 30, 1975, despite gratifying advances in some areas of our operations.

## Portugal

In light of the current political upheaval in Portugal, the Company decided to write down its inventory and investment in our wholly-owned subsidiary, Conlus-Confeccoos Lusas S.A.R.L., which was established in Portugal in 1969 to provide economical production facilities for our markets in the European Economic Community. We regret this turn of events which resulted in an extraordinary loss of \$345,000; however, in line with prudent financial reporting, it was no longer plausible to carry our investment in Conlus as an asset on our books. Your Company will continue to watch the situation in Portugal and will direct whatever efforts become possible to re-activate this subsidiary — if, as, and when the opportunity presents itself.

## Venezuela

Your Company has sold its 50 per cent interest in Sel-Fex, C.A.

This associated company, which came into being in 1970 on the merger of our former subsidiary in Venezuela with Sel-Fex, has suffered continued subsequent losses, although recent operational progress has been made in improving efficiency of production and quality of product. Overriding these encouraging interim signs were continued management conflicts and, finally, the general uncertainties in the country itself.

The proceeds of the sale, which was effective as at June 30, 1975, were applied against the Company's equity in Sel-Fex, and resulted in an extraordinary gain of \$41,000. Management of your Company is pleased with the manner in which its operations in Venezuela have been culminated. The beneficial effect on current working capital and its related effect of reducing debt and corresponding carrying charges are considered to be the primary advantages of the sale of our shares of Sel-Fex, and are expected to be reflected in future financial results.

## Sales

Consolidated sales amounted to \$15,000,000 compared to last year's \$18,000,000, which included the sales of the former division, Lady Manhattan, up to April 30, 1974, on which date this division was sold.

Increases at the supplier level and general accelerating costs of doing business, made it necessary to adjust prices to our customers, resulting in some buyer resistance at the retail level. New fashion design and production planning have allowed the Company to put a much more competitively-priced product line on the market. We, therefore, look forward to improved sales performance in the coming year.

Sales of our subsidiary in Great Britain were eroded by the economic conditions which prevailed throughout the United Kingdom. We foresee some improvement in volumes in the U.K. as the country's inflationary pressures are somewhat alleviated.

## Earnings

Earnings after income taxes and adjustments for foreign exchange translation, but before extraordinary items, were \$98,000 compared to last year's restated earnings of \$266,000.

After extraordinary losses of \$304,000 (as opposed to an extraordinary gain last year of \$311,000), the net loss for the year was \$206,000 compared to restated earnings of \$577,000 in the prior year.

## Working Capital

Working capital increased in the year by \$469,000, bringing year-end working capital to \$3,000,000. During the year, funds were primarily used to reduce long-term debt and purchase additional production equipment. For the coming year, the Company is planning no unusual capital expenditures.



## Operations

Although the year was a most difficult one from an overall operational viewpoint, steps have been taken to concentrate on those areas of the business that display the best potential for growth and development. Management recognizes the continuing need for flexibility and cautious actions at a time of uncertain market conditions, particularly in the consumer products field. We are constantly refining our operations with a view to effecting cost-savings while providing the retail trade with a range of saleable items that meet consumer needs in the marketplace.

New stylings of brassieres, introduced in recent months have met with encouraging response and promise to open new marketing opportunities for your Company. Our well-established line of swimwear continues to make a positive contribution to sales improvement.

Operations in Germany and Colombia are progressing satisfactorily.

Albion Realty continues to operate on a restricted basis and concentrates on highly liquid sales as

well as collection of its mortgages receivable.

Management assures shareholders of its utmost efforts to build a more profitable, viable corporation on its currently-reduced but solidly-based scope of operations. We are appreciative of the efforts of our personnel at all levels toward our corporate goals and extend to them our profound thanks.

It is our sincere expectation that the coming year will end on a note of improvement in all areas of the Company's operations.



Harry L. Solomon  
President,

October 24, 1975

## Exquisite Form

Price-conscious women have responded well to our latest line of brassieres designed to meet the three criteria of the Company's new marketing philosophy — to satisfy the needs of the consumer with good quality and good fit at good prices. Available at retail stores throughout Canada, these new styles are gaining in sales acceptance and are now considered to be staple items for your Company's on-going marketing program.



Along with our perennially favourite lines of girdles and briefs, such as the well known "Magic Lady", Exquisite Form has catered to current fashion trends with one-piece body shapers and traditional bra stylings that convert to halter backs or plunging fronts.

Demonstrating product versatility, our "Swimfits" range of swim wear continues to have attractive eye-appeal at beaches and pools, and high sales appeal at retail counters everywhere.



**Exquisite Form  
Brassiere  
(Canada) Limited**  
and Subsidiary Companies

**CONSOLIDATED  
BALANCE SHEET** as at June 30, 1975

**ASSETS**

	1975	1974 (Restated)
<b>Current</b>		
Cash	\$ 28,625	\$ 74,817
Accounts receivable (note 6)	2,685,753	3,130,841
Inventories (notes 1f and 6)	6,810,024	6,664,195
Prepaid expenses	193,131	205,598
Notes and loans receivable — current portion (notes 5 and 6)	644,977	80,000
Income taxes recoverable	95,810	—
	<u>10,458,320</u>	<u>10,155,451</u>
<b>Investments</b>		
Associate companies (notes 1d, 3 and 4)	<u>147,972</u>	<u>848,601</u>
<b>Fixed (note 1e)</b>		
Land and buildings (note 6)	444,728	858,248
Equipment and leasehold improvements	1,914,067	2,302,417
	<u>2,358,795</u>	<u>3,160,665</u>
Less: Accumulated depreciation	<u>1,597,158</u>	<u>1,794,223</u>
	761,637	1,366,442
<b>Other</b>		
Goodwill (note 1c)	1,160,545	1,138,647
Notes receivable (notes 5 and 6)	416,848	—
Other investments	44,811	47,689
Deferred charges	17,700	26,065
Advance corporation tax (Great Britain)	88,670	—
	<u>1,728,574</u>	<u>1,212,401</u>
	<u><u>\$13,096,503</u></u>	<u><u>\$13,582,895</u></u>

# AUDITORS' REPORT

## LIABILITIES

	1975	1974 (Restated)
<b>Current</b>		
Bank indebtedness (note 6)	\$ 4,178,637	\$ 3,966,975
Accounts and notes payable	2,797,351	2,916,635
Owing to parent company	308,551	223,700
Income taxes	37,200	189,014
Non-current debt, due within one year	151,000	342,255
	<u>7,472,739</u>	<u>7,638,579</u>
<b>Non-Current</b>		
Sinking fund debentures (note 7)	860,000	960,000
Income taxes provided for but not currently payable	57,375	58,000
	<u>917,375</u>	<u>1,018,000</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 9)		
Preference shares	318,140	318,140
Common shares	2,010,306	2,010,306
Retained Earnings	2,377,943	2,597,870
	<u>4,706,389</u>	<u>4,926,316</u>
	<u>\$13,096,503</u>	<u>\$13,582,895</u>

Approved by the Board:

Harry L. Solomon, Director  
Joseph H. Gayne, Director

## To the shareholders

We have examined the consolidated balance sheet of Exquisite Form Brassiere (Canada) Limited as at June 30, 1975, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For Exquisite Form Brassiere (Canada) Limited, (the parent company), our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For other companies consolidated or accounted for by the equity method, we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at June 30, 1975, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada  
September 18, 1975

WM. EISENBERG & CO.  
Chartered Accountants

**Exquisite Form  
Brassiere  
(Canada) Limited**  
and Subsidiary Companies

**CONSOLIDATED STATEMENT OF EARNINGS**

Year Ended June 30, 1975

	1975	1974 (Restated)
Revenue		
Net sales	\$15,429,927	\$18,407,733
Costs and Expenses		
Cost of products and expenses	14,643,346	16,970,767
Depreciation and amortization (notes 1c and 1e)	142,937	221,958
Interest on long-term debt	92,840	135,396
Interest on short-term debt	479,222	548,697
Income taxes	109,902	329,633
	<u>15,468,247</u>	<u>18,206,451</u>
Earnings (loss) from operations	(38,320)	201,282
Foreign exchange translation (note 1b)	(36,101)	(45,096)
Income from investments in associate companies (note 1d)	172,746	109,748
	<u>98,325</u>	<u>265,934</u>
Earnings before extraordinary items		
Extraordinary items (note 13)	(303,936)	311,469
Net Earnings (Loss)	<u>(\$ 205,611)</u>	<u>\$ 577,403</u>
Earnings per Common Share (note 12)		
Before extraordinary items	\$ .13	\$ .39
After extraordinary items	\$ (.36)	\$ .89

**CONSOLIDATED STATEMENT OF  
RETAINED EARNINGS**

Year Ended June 30, 1975

	1975	1974 (Restated)
Amount at beginning of year		
As originally reported	\$ 2,457,552	\$ 2,396,499
Prior years' adjustments (note 10)	140,318	(356,944)
As restated	<u>2,597,870</u>	<u>2,039,555</u>
Net earnings (loss)	(205,611)	577,403
Dividends — first preference share — 45¢ (1974 — 60¢) (note 9)	(14,316)	(19,088)
Amount at end of year	<u>\$ 2,377,943</u>	<u>\$ 2,597,870</u>



**Exquisite Form  
Brassiere  
(Canada) Limited**  
and Subsidiary Companies

**CONSOLIDATED STATEMENT OF CHANGES  
IN FINANCIAL POSITION**

	1975	1974 (Restated)
<b>Source of Working Capital</b>		
Net earnings before extraordinary items	\$ 98,325	\$ 265,934
Add: Tax benefit from application of loss carry forward (note 13)	—	167,700
Investment income from associate companies (note 1d)	(172,746)	(109,748)
Depreciation and amortization (note 1e)	142,937	221,958
Funds from operations	68,516	545,844
Sale of division, net of income taxes (note 13)	—	289,758
Sale of investment in associate company — note receivable (note 5)	564,977	—
Loan receivable	—	80,000
Investment in Portuguese subsidiary — working capital deficiency, less losses (notes 3 and 13)	174,746	—
	<u>808,239</u>	<u>915,602</u>
<b>Application of Working Capital</b>		
Fixed assets less disposals	76,280	142,015
Long-term debt — notes and mortgages	—	188,452
— debentures (note 7)	100,000	244,000
Advance corporation tax (Great Britain)	88,670	—
Dividends	14,316	19,088
Investment in associate companies	30,697	(44,227)
Other	29,567	1,115
	<u>339,530</u>	<u>550,443</u>
<b>Increase in Working Capital</b>	<u>468,709</u>	<u>365,159</u>
<b>Working Capital at beginning of year</b>		
As originally reported	2,392,556	2,162,832
Prior years' adjustments	124,316	(11,119)
As restated	<u>2,516,872</u>	<u>2,151,713</u>
<b>Working capital at end of year</b>	<u>\$2,985,581</u>	<u>\$2,516,872</u>

**Exquisite Form  
Brassiere  
(Canada) Limited**  
and Subsidiary Companies

**ANALYSIS OF CHANGES IN  
WORKING CAPITAL COMPONENTS**

Year Ended June 30, 1975

	<u>1975</u>	<u>1974</u> (Restated)
Increase (Decrease) in Current Assets		
Cash	(\$ 46,192)	(\$ 40,206)
Accounts receivable	(445,088)	(343,779)
Note receivable (note 5)	564,977	—
Inventory	145,829	480,428
Short-term deposits and investments	—	(154,800)
Prepaid expenses	(12,467)	13,321
Income taxes refundable	95,810	—
	<u>302,869</u>	<u>(45,036)</u>
(Increase) Decrease in Current Liabilities		
Bank indebtedness	(211,662)	778,766
Accounts and notes payable	119,284	(416,868)
Owing to parent company	(84,851)	(98,601)
Income taxes payable	151,814	189,157
Current portion of non-current debt	191,255	(42,259)
	<u>165,840</u>	<u>410,195</u>
Increase in Working Capital	<u>\$468,709</u>	<u>\$365,159</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at June 30, 1975

## 1. Accounting Policies

### a. Principles of consolidation

The consolidated financial statements include the accounts of the following wholly-owned subsidiary companies:

- Exquisite Form Brassiere Ltd. G.m.b.H. — West Germany
- Exquisite Form Brassiere de Colombia Ltda. (note 2)
- Exquisite Form Brassiere (Great Britain) Limited (note 1c)

All significant inter-company loans and transactions have been eliminated on consolidation.

### b. Translation of foreign currencies

Foreign currencies have been translated into Canadian funds at free rates of exchange on the following bases:

- Current assets and all liabilities — at the prevailing year end rate
- Fixed and other assets — at the average cost in the year of acquisition
- Revenue and expenses — at the average rate for the year

Certain countries have exchange restrictions, but except for the Colombian subsidiary (note 2), the foreign currencies are generally convertible into Canadian dollars at free rates of exchange, subject to the formal approval by their central bank.

### c. Goodwill

Goodwill is the excess of cost over book value of the shares in the English subsidiary at the times of purchase of these shares (note 1a). During the current fiscal year, the subsidiary suffered a loss. No reduction in the value of goodwill has been recorded as, in the opinion of management, the long-term value of this subsidiary has not been impaired.

### d. Investment and advances in associate companies — at equity

	1975	1974 (Restated)
Sel-Fex C.A. — Venezuela (50% owned) (note 5)	\$ —	\$676,533
Albion Realty & Mortgage Inc. — U.S.A. (50% owned) (note 4)	147,972	172,068
	<u>\$147,972</u>	<u>\$848,601</u>

### e. Fixed assets, depreciation and amortization

Fixed assets are recorded at cost and depreciation or amortization is computed so as to expense the cost during their estimated useful life:

Kind of asset	Canada	Elsewhere
Buildings	—	3% — 5% straight line
Equipment	20% — 30% reducing balance	10% — 20% reducing balance or straight line
Leasehold improvements	Straight line basis over term of lease and first option	20% straight line

### f. Inventories

Inventories of raw materials and products are valued generally at lower of cost and net realizable value.

## 2. Exquisite Form Brassiere de Colombia Ltda.

The repayment of foreign currency loans and investments is subject to regulation and only the amounts registered can be repatriated. Earnings which may be remitted annually are limited to 14% of the registered capital. The Company has registered loans of \$230,577 and registered capital of \$53,196. However, before remitting dividends, the Colombian subsidiary must register its net earnings since 1966 which have exceeded its pre-1966 accumulated losses.

## 3. Conlus-Confeccoes Lusas S.A.R.L. — Portugal

Political instability in Portugal has jeopardized the Company's investment in its Portuguese subsidiary, and the Company has made full provision for all possible losses (note 13), other than contingent liabilities (note 14).

#### 4. Albion Realty & Mortgage, Inc. (note 1d)

Many house sales made by Albion required it to accept an instalment note, generally secured by a second mortgage on the property sold for that portion of the contract price in excess of the first mortgage assumed by the buyer and the down payment, which generally approximated 5% of the sales price.

As at June 30, 1975, the mortgages receivable of Albion, after deducting deferred income of \$1,178,959 (1974 — \$1,290,800), amounted to \$1,079,014 (1974 — \$1,135,775). The mortgages receivable have maturities extending between 8 and 35 years.

#### 5. Note Receivable — Sel-Fex C.A. — Venezuela (note 1d)

Effective on June 30, 1975, the Company sold its interest in its Venezuelan associate for \$950,000, U.S. (note 6), of which approximately \$400,000 U.S. is the balance payable from June 30, 1976 to March 31, 1979 in equal quarterly instalments under the terms of promissory notes taken back as part consideration for the sale price.

#### 6. Assets Pledged

The accounts receivable, inventories, certain fixed assets and the notes receivable on the sale of Sel-Fex (note 5) have been pledged as security for bank loans.

#### 7. Sinking Fund Debentures

The 6¼% Sinking Fund Debentures, Series A, maturing December 1, 1982, were issued under a trust indenture dated November 15, 1962, which provided for the following conditions, inter alia:

- Specific pledge of shares of subsidiaries owned by the Company, a first floating charge on all assets whatsoever, and restrictions on dividends.
- Redemption prior to maturity at a premium which reduces annually.
- Establishment of a sinking fund for the retirement of \$100,000 aggregate principal amount of Series A Debentures on December 1st, from 1975 to 1981 inclusive.
- Proceeds from the sale of business assets in excess of \$100,000 are to be used to retire the debentures.

For past requirements, the Company has elected to purchase debentures for cancellation in lieu of setting up a sinking fund. The aggregate amount of payments required in the next five years to meet its obligations under the sinking fund provisions amount to \$471,000.

#### 8. Executive Remuneration

Aggregate direct remuneration paid to directors and senior officers of the Company during the year totalled \$220,000 (1974 — \$267,000).

#### 9. Capital Stock

		1975	1974
Authorized			
181,814	First preference shares of the par value of \$10 each, issuable in series		
7,000	5% Non-cumulative, non-voting, redeemable, second preference shares of the par value of \$50 each.		
1,117,812	Common shares, without par value		
Issued			
31,814	6% Cumulative, redeemable, non-voting, first preference shares, series A	\$ 318,140	\$ 318,140
629,396¼	Common shares	2,010,306	2,010,306
		<u>\$2,328,446</u>	<u>\$2,328,446</u>

On April 29, 1971, the Company granted The Summit Organization, Inc., the parent company, an option expiring November 25, 1975, to purchase 100,000 common shares at a price of \$8 per share in return for a line of credit guaranteed for Albion (note 4).

The Company did not declare the quarterly dividend of \$4,772 on the series A, cumulative, first preference shares for the three months ended July 1, 1975. If six quarterly dividends on these shares are in arrears, the preference shareholders are entitled to vote and to elect three members of the board.



## 10. Prior Years' Adjustments

	<u>1975</u>	<u>1974</u> (Restated)
Sel-Fex C.A. (note 5)		
Reimbursement of unauthorized payments made to Venezuelan shareholders, net of income tax	\$ —	\$ 51,640
Albion Realty & Mortgage Inc. — U.S.A. (notes 1d and note 4)		
Restatement of income to comply with A.I.C.P.A. accounting recommendations	—	(344,731)
Exquisite Form Espana S.A. — Spain		
Restatement of losses in prior year, not accounted for previously	—	(52,734)
Exquisite Form Brassiere de Colombia Ltda. (note 2)		
Adjustment of 1969 and 1972 income taxes	24,315	(11,119)
Correction of computer error in inventory calculation	100,000	—
Other	16,003	—
	<u>\$140,318</u>	<u>(\$356,944)</u>

## 11. Long-Term Leases

The Company and its subsidiaries have entered into leases on property and equipment, expiring through 1982, with a maximum rental payable in any one year of approximately \$274,651. During the year ended June 30, 1975, the Company received rental income of \$34,339 for a portion of its premises.

## 12. Earnings per Share

Earnings per common share have been calculated on the shares outstanding during the year, after deduction of the cumulative dividends on the first preference shares.

Fully diluted earnings per common share are excluded as the exercise of options is anti-dilutive.

## 13. Extraordinary Items

	<u>1975</u>	<u>1974</u> (Restated)
Sel-Fex C.A. — Venezuela (note 1d)		
a. Tax benefit resulting from application of prior years' losses carried forward	—	\$ 29,500
b. Special provision for employee termination benefits under government regulation	—	(31,800)
Profit on sale of equity in Sel-Fex C.A. — Venezuela (note 5)	41,086	—
Conlus-Confeccoes Lusas SARL — Portugal provision for losses (note 3)	(345,022)	—
Profit on the sale of the business of the Lady Manhattan Division (net of income tax of \$54,700)	—	146,069
Tax benefit resulting from the application of prior year losses carried forward	—	167,700
	<u>(\$303,936)</u>	<u>\$311,469</u>

## 14. Contingent Liabilities

A lawsuit is pending against the Company's subsidiary in Portugal for \$110,000, on which no action has been taken by the claimant in the past year.

The Company is contingently liable to banks for loans and notes discounted in the amount of \$329,061 (\$256,200 Portugal). Guarantees of approximately \$893,000 have also been given in respect of goods to the Portuguese Customs Authorities. As at June 30, 1975, no customs duties were payable under these guarantees.

A contingent liability for retroactive pension benefits exists as a result of new legislation for employees who have more than 10 years service with the Colombian subsidiary. The amount of this liability, if any, is to be determined by actuarial study.

## CONSOLIDATED STATISTICAL REVIEW

(thousands of dollars except for per share items)

*For year ended	1975	1974	1973	1972	1971
Net sales	\$15,430	\$18,408	\$17,283	\$15,055	\$13,596
Net earnings					
before extraordinary items	98	266	316	266	80
after extraordinary items	(206)	577	249	113	80
Net earnings per common share					
before extraordinary items	0.13	0.39	0.47	0.39	0.10
after extraordinary items	(0.36)	0.89	0.37	0.15	0.10
Current assets	10,458	10,155	10,200	8,867	7,380
Current liabilities	7,473	7,639	8,049	6,777	4,933
Working capital	2,986	2,517	2,151	2,090	2,447
Non-current debt	860	960	1,393	1,758	2,082
Shareholders' equity	4,706	4,926	4,344	4,114	4,020
Fixed asset additions (net)	76	142	250	509	418
First preference dividends per share	0.45	0.60	0.60	0.60	0.60

\*Restated where applicable

## INTERNATIONAL LOCATIONS

### Canada

EXQUISITE FORM BRASSIERE (CANADA) LIMITED  
215 Spadina Avenue, Toronto, Ontario

### Colombia

EXQUISITE FORM BRASSIERE DE COLOMBIA LTDA.  
Carrera 53A No. 10-15, Bogota

### Portugal

CONLUS-CONFECOS LUSAS, S.A.R.L.  
Quinta da Matinha, Corroios

### United Kingdom

EXQUISITE FORM BRASSIERE (GREAT BRITAIN) LIMITED  
28/30 Market Place, Oxford Circus, London

### West Germany

EXQUISITE FORM BRASSIERE LIMITED G.m.b. H.  
Donnerhofstr. 19, 41 Duisburg

### United States (associate)

ALBION REALTY & MORTGAGE, INC.  
8363 N.E. Second Ave., Miami, Florida



